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## **MEMORANDUM**

To: Transportation Committee

Date: December 30, 2009

From: Matt Maloney, Senior Manager, Program and Policy Development

Re: Financial Plan for GO TO 2040 (reasonably expected revenues)

## **Background**

The transportation financial plan, a part of *GO TO 2040*, will estimate both transportation costs and revenues. Calculating revenues has two primary components. The first component, "core revenues", is the projection of revenues that the region currently receives for transportation, without assuming any changes to tax rates or funding formulas. Forecasts of these revenue sources were presented to the Transportation Committee at the September meeting. Please see: http://www.cmap.illinois.gov/WorkArea/DownloadAsset.aspx?id=17260.

Several pieces of the core revenue forecast remain a work in progress, and CMAP continues to work with RTA, IDOT, the Tollway and others in refining these numbers. At this point, staff anticipates federal, state, and local "core revenues" to equal roughly \$350 billion, in year of expenditure dollars over the thirty year planning period.

In addition, FHWA/FTA guidance on the fiscal constraint permits MPOs to calculate revenues that can "reasonably be expected". What is "reasonable" usually constitutes a judgment call, based upon the current political and policy climate at various levels of government. CMAP staff introduced some of these potential funding sources to the Transportation Committee at their October meeting. Please see:

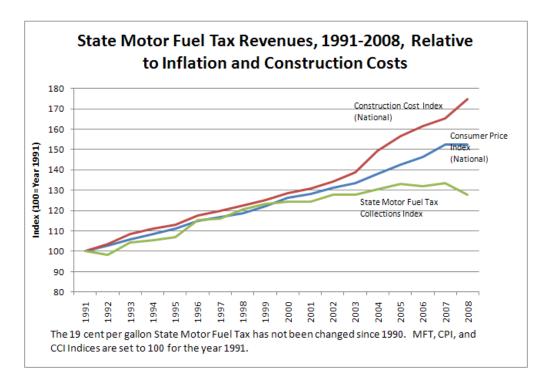
http://www.cmap.illinois.gov/WorkArea/DownloadAsset.aspx?id=17620

The following sections explain the "reasonably expected revenues" that CMAP is considering for inclusion in *GO TO 2040*'s financial constraint. CMAP staff seeks feedback from the Transportation Committee regarding these revenue sources, assumptions, and estimates.

## **Reasonably Expected Revenue Sources**

#### State Motor Fuel Tax Increase

While the State of Illinois motor fuel tax has remained \$0.19 per gallon since 1990, rate increases do have historical precedent. Since 1929, the tax rate has been increased nine times- five of these increases occurred between the years 1983-1991, in response to steadily declining revenues during the 1970s. Since the tax is imposed "per gallon" rather than "per dollar", State MFT revenues have failed to keep pace with inflation and the cost of construction materials as expressed through the construction cost index (CCI). Since both state and federal motor fuel tax revenues must be used for transportation-related expenditures, a lack of MFT inflation indexing will continue to impact the ability of the State and local governments to maintain and enhance the system. The following graph sketches out how the state motor fuel tax revenue has fared, relative to the CPI and CCI since 1991.



To date, the CMAP Board has formally supported an Illinois House Bill (House Bill 1 (Bradley)) amending the motor fuel tax law by raising the rate by 8 cents to 27 cents per gallon. A number of transportation policy advocates in northeastern Illinois have also advocated various similar measures for raising the state MFT tax, as well as indexing the rate to inflation. Chicago Metropolis 2020, a civic organization representing the region's business community, has outlined "A Case for Raising the Motor Fuel Tax in Illinois", which includes indexing the rate to inflation and dedicating a portion of the revenue to the Regional Transportation Authority. See that brief here:

 $http://www.chicagometropolis 2020.org/documents/A Case for Raising the Motor Fuel Taxin Illinois. \\pdf$ 

The following table explains the amount of revenues forecast to flow to northeastern Illinois from an 8 cent State MFT increase which is indexed to an inflation rate of 3% annual. The table also includes the core revenues (state and local government allocation), which have already been forecasted. CMAP estimates that an 8-cent gas tax adjustment, indexed to inflation and assumed to begin in 2012, would yield \$19.4 billion in new revenue for transportation in northeastern Illinois over the planning horizon.

# State Motor Fuel Tax Revenues to Northeastern Illinois, Core and Reasonably Expected (Millions \$)

REVENUE SOURCE	FY 11-15	FY 16-20	FY 21-25	FY 26-30	FY 31-35	FY 36-40	TOTAL
State Motor Fuel Tax (MFT)-	\$1,454	\$1,557	\$1,660	\$1,763	\$1,866	\$1,969	\$10,268
Road & Construction Fund to NE Illinois (CORE)							
Local Allotment of State MFT (CORE)	\$1,997	\$2,139	\$2,280	\$2,422	\$2,563	\$2,705	\$14,105
8- cent increase in State MFT, indexed to inflation (State and Local)	\$1,152	\$1,609	\$2,129	\$2,851	\$3,727	\$4,781	\$19,414

#### Transportation Allowances from Federal Climate Change Legislation

H.R. 2454 (the American Clean Energy and Security Act of 2009) passed the full House of Representatives on June 26, 2009. S. 1733 (the Clean Energy Jobs & American Power Act) passed out of the Senate Environment and Public Works Committee on November 5, 2009. Both pieces of legislation would limit greenhouse gas emissions via a cap—and-trade system and require the use of more renewable energy. The time horizon for both bills extends to the year 2050.

These proposed cap-and-trade systems would work by setting annual limits on GHG emissions. Entities would comply by either reducing emissions, holding an allowance for each ton of GHG emitted, or acquiring an offset credit. The federal government would sell a portion of the allowances and distribute the remainder to various entities including the private sector, households, and units of government. The Congressional Budget Office, in their analysis of H.R. 2454, estimates that the total value of allowances in the year 2020 will be just over \$100 billion. Roughly 50% of the allowances would be directed to U.S. businesses and 30% would be directed to households. About 10% of the allowance value would be allocated to the federal and state governments to be spent on technology development and energy efficiency improvements.<sup>1</sup>

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<sup>&</sup>lt;sup>1</sup> Congressional Budget Office. June 19, 2009. The Estimated Costs to Households from the Cap-And-Trade Provisions of H.R. 2454.

A percentage of these allowances would be distributed through States and MPOs for the purposes of "clean transportation". The H.R. 2454 and S. 1733 language differs somewhat in the percentage of allowances allocated to transportation. The House version allocates 1% of allowances toward transportation while the Senate version allocates roughly 2.8% of allowances toward transportation. Programs receiving these allowances would include state and metropolitan transportation planning and public transit urbanized area formula grants, among others.

While it is difficult to forecast how final legislation will eventually proceed, CMAP believes that some percentage of these proposed allowances can be considered "reasonably expected" based upon the policy climate surrounding the climate change legislation. While CMAP will continue to monitor this ongoing legislation, it can be expected that a 2% transportation allowance allocation would result in roughly \$2 billion annual for transportation nationwide. Of this total, the State of Illinois could be expected to receive 3.5%, or \$70 million annual, which is a percentage commensurate with SAFETEA-LU transportation appropriations. If we assume 45% of the state total will flow to northeastern Illinois transportation projects, this totals \$31.5 million in new transportation funding. At a 3% annual rate of inflation between 2012 (the beginning of the cap-and-trade time horizon) and 2040, this totals roughly \$1.2 billion in new revenues for transportation.<sup>2</sup>

# **Congestion Pricing**

Congestion pricing seeks to apply economic principles of supply and demand to efficiently allocate scarce road space. Experience from other places shows that congestion pricing can raise considerable revenues by forcing travelers to consider the true marginal cost of their travel through direct user pricing; correspondingly some travelers choose to change their time, mode, or route of travel, or choose not to travel at all. CMAP has studied "managed lanes" strategies as part of the *GO TO 2040* process. If included as a reasonably expected revenue source, congestion pricing would be considered as a strategic enhancement within the Plan's preferred scenario and assume no additional expressway capacity, unless included as part of a specific major capital project proposal.

While the implementation of congestion pricing in northeastern Illinois is not unanimously supported, there has been a considerable level of coordination among local transportation agencies in studying its impacts and proposing specific projects to the federal government for implementation dollars. In December 2007, CMAP, in coordination with the Illinois Tollway, Illinois Department of Transportation, Regional Transportation Authority, and Pace submitted a Congestion Reduction Demonstration proposal to the United States Department of Transportation. The submittal proposes congestion pricing along the I-90/Jane Addams Memorial Tollway. The proposal can be found here: <a href="http://tinyurl.com/2m2bxu">http://tinyurl.com/2m2bxu</a>. While the proposal was not selected by USDOT for funding, it demonstrates a regional commitment among both planners and implementing agencies to a careful implementation of congestion pricing.

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<sup>&</sup>lt;sup>2</sup> Assuming \$31.5 million in 2020. Inflation rate of 3% is used to forecast forward, and back, from this number.

Furthermore, The Illinois Tollway, in partnership with the Metropolitan Planning Council and Wilbur Smith Associates (WSA), is in the final stages of a two-year study to develop strategies that will reduce congestion in the region. The study models the impacts of congestion pricing on the Tollway, as well as IDOT expressways, and considers the diversion to local roads. It considers a range of scenarios, routes, and configurations to help reach desired goals. This study has included outreach to a range of local implementers and the general public. Initial results have been shared with CMAP's Transportation Committee. See more information about this study here: http://www.cmap.illinois.gov/WorkArea/DownloadAsset.aspx?id=16529

The Tollway study includes a range of evaluation measures for prioritizing congestion pricing on different expressway segments across the region. The measures include weekday congestion, constructability, peak period traffic management potential, and revenue potential (net, including operating costs). CMAP used revenue estimates from this study to construct forecasts, which also assume no additional added capacity. In other words, these are simply based upon conversions of existing lanes. The estimates assume a conservative \$0.15 per mile toll rate. CMAP assumes revenues from congestion pricing will flow to the region beginning in the year 2020.

Projects scoring "medium to high" in terms of overall implementation potential comprise roughly 2.5% of the region's total expressway lane miles. Based on the study, these projects are estimated to generate roughly \$343,000 net annual revenue per lane mile. In this scenario, anticipated revenues total **\$1.6 billion** over the planning horizon. A more aggressive forecast could assume that 20% of the expressway network's lane miles will be priced. In this scenario, anticipated revenues would total **\$13.2 billion** over the planning horizon.

#### Variable Parking Pricing

Like other parking management strategies, applying variable rates to parking can be used to influence traveler mode choice, time and amount of travel, and to shift drivers from a congested location. Variable pricing seeks to apply a free market-inspired pricing system to more efficiently allocate parking supply, with higher prices charged at times and locations of peak demand. Variable pricing has the promise of both effective congestion mitigation and the ability to raise considerable revenues for the public sector. Like other strategies listed in this memo, CMAP intends to advocate for the careful implementation of parking pricing in local municipalities, where appropriate. Revenues from parking can help local governments fund a variety of services, including transportation improvements.

CMAP recently analyzed the revenue potential of variable parking pricing in a strategy report entitled *Parking Management Strategies*. In variable pricing scenarios, it is estimated that variable pricing could raise considerable revenues for northeastern Illinois. Given 3.2 million off-street spaces, and numerous on-street spaces, the report makes the conservative estimate that 2 million of the spaces are free. Charging a nominal fee of \$1 / day for weekdays only would provide \$520 million in annual revenues for the region. These estimates are for illustrative purposes only; pricing should be determined on a local level, with consideration of transit facilities, bicycling and walking amenities, land value, and demand.

For purposes of the *GO TO 2040* fiscal constraint, CMAP again chose to analyze potential parking revenues in a very conservative fashion. A beginning assumption is that 1% of the above spaces would be priced in the first year. Thus, \$5.2 million in new revenues would be generated. Each subsequent year would price an additional 1% of spaces- thus by the year 2040, 30% of these currently free spaces would be priced. With a final assumption that 50% of these revenues would be used for transportation purposes by local governments, implementation of this above strategy would yield just over **\$1.2 billion** in new revenues for transportation.

A more aggressive approach could simply assume that the quantity of priced parking spots will increase at a rate of 2% per year. Thus, by the year 2040, 60% of these currently free spaces would be priced (again, assuming \$1 a day, with 50% of revenues be used for transportation). The aggressive approach would yield around \$2.4 billion in new revenues for transportation.

# Public-Private Partnerships

Public Private Partnerships have strong support from federal agencies as an innovative finance mechanism. The City of Chicago has used PPPs for asset sales. Illinois lacks State-enabling legislation that allows IDOT and the Tollway to enter into PPPs. The Volpe Center produced a strategy report on PPPs for CMAP. This report is largely an overview of the range of different PPP arrangements, State and Federal policy on PPPs, and the potential role of the MPO. The report can be found here: http://www.goto2040.org/WorkArea/DownloadAsset.aspx?id=14844

CMAP believes that PPP revenues should be estimated on the project level and should be associated with a particular major capital project proposal. As analysis and discussion of major capital projects continues, some project sponsors may include PPP as a financing mechanism, but this will be done on a project-by-project basis, not systematically. Thus, at this time, CMAP would not be including PPP as a reasonably expected revenue source. *GO TO 2040* will lend policy support to PPP in the Plan's narrative, and it is anticipated that the CMAP Board will continue to advocate for the prudent use of PPP for transportation and other capital projects in northeastern Illinois.

## The "55/45" Split for Northeastern Illinois

State of Illinois highway funding from the Road Fund and Construction Account has traditionally been allocated on the basis of an informal agreement that sends 45 percent to northeastern Illinois and 55 percent to the remainder of the state. A breakdown of the highway awards for IDOT District 1 (includes both federal and State funds for IDOT highways and local roads) compared to the statewide resources since 1992 shows that District 1 has received 43 percent, relative to the rest of the State. IDOT District 1 covers the CMAP planning area except for Kendall County, which is located in District 3. The CMAP Board believes that decisions on the division of transportation funding should be based on clear criteria and performance measures, rather than on such an arbitrary allocation.

The revenue potential for northeastern Illinois from such a change would be quite large. CMAP estimates that shifting the allocation to 50/50 could yield an additional **\$8 billion** or more in year of expenditure dollars for the region between 2011 and 2040.

# Value Capture for Transit

A local option for increasing revenues for transportation funding is the concept of value capture by creating assessment districts as well as tax increment financing. Value capture attempts to capture some of the increase in value due to the transportation improvements that benefit the affected properties. Assessment districts are special property taxing districts where the cost of transportation infrastructure is paid for by properties that are deemed to benefit from the transportation infrastructure. These assessments can be applied to the full value of the subject property, or a Tax Increment Financing technique can involve issuing bonds to finance public transportation infrastructure improvements, then paying off the bonds with dedicated revenues from the increment in property taxes that would result from such improvements. This could be categorized as a PPP if a developer constructed the transportation infrastructure with private funds to increase the value of the development and turned over the infrastructure to a public entity for operation.

Similar to PPP, CMAP has not estimated "value capture" revenues at this point, since these revenues should be included as a financing strategy for a new major capital project proposal.

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